

TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE



FISCAL NOTE

HB 421 - SB 344

February 19, 2021

SUMMARY OF BILL: Increases, from four to five percent of the total amount of the loan, the rate a Tennessee industrial loan and thrift (TILT) company may institute as a service charge.

Replaces the tiered structure governing what TILT companies may charge as an installment maintenance fee with a flat fee of \$5 per month.

Increases, from four to five percent, the amount a TILT company may pay to a mortgage broker for services actually rendered in a residential mortgage loan transaction.

Authorizes TILT companies to collect a closing fee of up to four percent of the amount financed not to exceed \$50. Requires the company to refund the borrower a pro rata portion of the closing fee in cases in which the loan was prepaid in full within 90 days of the date of the loan. Authorizes the company to retain up to \$25 of the closing fee, regardless of when the loan is prepaid.

ESTIMATED FISCAL IMPACT:

NOT SIGNIFICANT

Assumption:

- Based on information provided by the Department of Financial Institutions, the Compliance Division will have to amend its examination procedures to account for the proposed changes; however, any increase in state expenditures resulting from these changes is estimated to be not significant.

IMPACT TO COMMERCE:

Increase Business Revenue – \$133,070,400/FY21-22 and Subsequent Years

Assumptions:

- In 2018, TILT companies issued 1,178,898 loans with a total value of \$4,170,584,644.
- Pursuant to Tenn. Code Ann. § 45-5-403, TILT companies are authorized to assess the borrower a one-time service charge of four percent of that amount, or \$166,823,386 (\$4,170,584,644 x 4.0%).

- The proposed legislation will increase the rate for these services charges to five percent, or \$208,529,232 (\$4,170,584,644 x 5.0%). It is assumed that the increase in rates will not substantially affect the total loans issued.
- The total recurring increase in business revenue associated with the proposed one-time service charge increase is estimated to be \$41,705,846 (\$208,529,232 - \$166,823,386) in FY21-22 and subsequent years.
- The precise breakdown of revenue accrued in monthly installment maintenance fees according to the current statutory tiered structure is unknown. However, pursuant to Tenn. Code Ann. § 45-5-403(a)(5)(A)(iv), TILT companies are authorized to charge \$2.50 per month on loan amounts greater than \$1,250.
- In 2018, the average value of each TILT loan issued was \$3,538. For the purposes of this analysis, it is therefore assumed that each loan issued was charged an average of \$2.50 each month, for a total annual revenue of \$35,366,940 (1,178,898 loans x \$2.50 each month x 12 months).
- The proposed increase of an additional \$2.50 (\$5.00 - \$2.50) for monthly installment maintenance fees would effectively double that revenue.
- Therefore, the total recurring increase in business revenue associated with the proposed \$5.00 flat monthly installment maintenance fees is estimated to be \$35,366,940 (1,178,898 loans x \$2.50 each month x 12 months) in FY21-22 and subsequent years.
- Any increase in business revenue resulting from increasing the amount a TILT company is authorized to pay a mortgage broker for services actually rendered in a residential mortgage loan transaction is estimated to be not significant, as such a change does not directly increase the number or value of residential mortgage loans issued.
- The proposed legislation will allow TILT companies to charge the borrower four percent of the amount financed up to \$50.00, with a minimum of \$25.00 to be retained, regardless of whether the loan is prepaid within 90 days.
- Number of loans charged off during the year was 162,082 for a total value of \$303,979,921; therefore, approximately 13.7 percent of total loans were charged off during the year.
- The number and value of loans paid within 90 days is unknown; however, based on the number of loans charged off during the year, it is estimated that TILT companies will retain \$25 from 10 percent of total number of loans made, or 117,890 (1,178,898 x 10.0%).
- From the remaining loans, or 1,061,008 (1,178,898 – 117,890), it is assumed that companies will retain \$50 in fees.
- Therefore, the total recurring increase in business revenue associated with the proposed closing fees is estimated to be \$55,997,650 [(117,890 x \$25) + (1,061,008 x \$50)] in FY21-22 and subsequent years.
- The total recurring increase to business revenue is estimated to be \$133,070,436 (\$41,705,846 + \$35,366,940 + \$55,997,650) in FY21-22 and subsequent years.
- Any impact on jobs in Tennessee is estimated to be not significant.
- All data cited in the preceding assumptions was taken from the 2019 Department of Financial Institutions' Annual Report.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.

A handwritten signature in black ink that reads "Bojan Savic". The signature is written in a cursive style with a large, stylized 'B' and 'S'.

Bojan Savic, Interim Executive Director

/jg